DEPARTMENT OF DEFENCE PRODUCTION

CANADA

1967 ANNUAL REPORT

105-04271/

SEVENTEENTH REPORT

of the

DEPARTMENT

of

DEFENCE PRODUCTION

1967

Hon. C. M. DRURY, P.C., C.B.E., D.S.O., Q.C., M.P., *Minister*

G. W. HUNTER, *Deputy Minister*

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ROGER DUHAMEL, F.R.S.C.
QUEEN'S PRINTER AND CONTROLLER OF STATIONERY
OTTAWA, 1968

To His Excellency The Right Honourable Roland Michener, C.C., Governor General and Commander-in-Chief of Canada.

March 25, 1968.

MAY IT PLEASE YOUR EXCELLENCY:

I have the honour to submit to your Excellency the Report of the Department of Defence Production for the calendar year 1967.

A summary of the operations and services rendered by this Department, under their respective headings, is laid before your Excellency.

Respectfully submitted,

Minister of Defence Production.

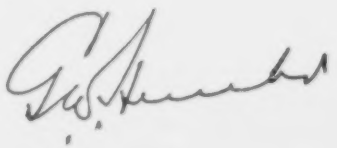
The Honourable C. M. Drury, P.C., C.B.E., D.S.O., Q.C., M.P.,
Minister of Defence Production,
Ottawa, Ontario.

March 25, 1968.

Dear Sir:

I have the honour to submit the Report of the Department of Defence Production, which covers the operations and services rendered during the calendar year 1967.

Yours faithfully,



Deputy Minister.

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1967 Departmental Highlights

- Purchasing responsibilities of eighteen departments have now been transferred to Defence Production. Contracts for External Aid placed in 1967 worth $29 million.
- Procurements successfully completed for the ten Expo theme pavilions, confederation train and caravans, and historical uniforms for the Armed Forces Military Tattoo.
- Canadian Government Purchasing Service contracts and contract amendments valued at $1,096,575,000.
- 9,000 contracts worth $34 million were processed by the Expo Regional Office over a three year period.
- Production commitments for Canada's Surveillance Drone secured from the Federal Republic of Germany and Great Britain.
- Negotiations completed for 105 NF-5 aircraft to be supplied to the Royal Netherlands Air Force.
- Regional purchasing offices at home or abroad placed 156,000 contracts totalling $128.5 million, a 30% increase over 1966.
- $3 million in contracts for Dominion Coal Board's modernization of Cape Breton Collieries awarded.

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Role of the Department

The original role of the Department of Defence Production, which was established in 1951 under the provisions of the Defence Production Act, encompassed both procurement and the organization, mobilization and conservation of the resources of Canada to meet current and prospective needs of the defence program. This role has altered significantly since that time.

In 1963 the Department was designated as the central purchasing agency for the Federal Government as a whole to serve all departments, both civil and military, and was also directed to enter the area of civil supply. More recently, certain responsibilities related to the defence industry base have been transferred to the Department of Industry.

The main role of the Department therefore, has now, in line with the Government's intent, become that of a common service agency in the purchasing and supply area as reflected by the creation within the Department of the Canadian Government Purchasing Service and the Canadian Government Supply Service.

In addition to the common service role, the Department carries responsibilities in the area of international trade of military equipment. In view of the increasingly higher costs of developing and producing modern military equipment, NATO allies and other friendly countries have generally adopted a policy of co-operation in weapon development replacing earlier unilateral endeavours. Such bilateral and multilateral arrangements are primarily intended to replace the waste of duplication with the real savings of co-operation. The Department of Defence Production, in its efforts to ensure that the Canadian Armed Forces is provided with the most modern equipment at the least cost, has sought to take advantage of co-operative arrangements with allied countries through selective participation in major defence development and production programs.

In its present role, the Department is also responsible for undertaking measures to encourage the development and production in Canada of defence equipment to meet the needs of allied and other friendly countries. This is being done in order to offset the effect on our balance of international payments resulting from substantial purchases of defence equipment abroad for our Armed Forces and to maintain an industrial defence base in Canada at an adequate and competitive level of technological sophistication.

These measures include defence industrial research, development, procurement, and production sharing with the United States and other members of NATO, and with other friendly countries. They also include the purchasing in Canada of goods and services required by foreign governments under a variety of international agreements.

The Minister in his capacity as Minister of Defence Production also reports to Parliament for the following Crown corporations: Canadian Commercial Corporation, Canadian Arsenals Limited, Crown Assets Disposal Corporation and the Polymer Corporation Limited. Each of these organizations issues its own annual report as does the Canadian Government Printing Bureau, which reports to the Minister through the Deputy Minister of Defence Production.

Material Management Program

During 1967 the Canadian Government Supply Service (CGSS) further developed material management techniques and systems for the consolidation of specific commodities for government departments and agencies.

Supply Planning and Control

The Supply Planning and Control Branch, under the direction of the Assistant Deputy Minister (Supply) is responsible for planning and implementing a supply system for all civil government departments and, in conjunction with the Department of National Defence and the Canadian Government Purchasing Service, for developing an integrated federal purchasing and supply system.

Director-General Operations

The Director-General Operations is responsible for the Regional Purchasing Branch, the CGSS Repair Division and No. 1 Supply Centre. During 1967 the organization continued to develop and improve field facilities to cope with the expanding responsibilities of the Canadian Government Supply Service. The volume of activity progressively increased in the areas of regional purchasing, warehousing and repair.

Regional Purchasing

Regional Purchasing offices are located across Canada and at London, England and Koblenz, Germany. A total of 155,883 contractual documents with an aggregate value of approximately $128.5 million were placed during 1967, an increase of some 30 per cent over 1966. During the same period CGSS regional purchasing offices provided regional procurement services to meet the local needs of the Department of National Defence and 18 civil departments and agencies. This service was expanded during the year to include the Departments of Trade and Commerce, Fisheries, National Revenue, Labour and Justice, as well as the Dominion Bureau of Statistics.

The Expo '67 component of the Montreal regional purchasing office placed 9,000 contracts with a total value of $34,201,300 from the time of its inception in 1964 until it closed in December, 1967. More than $20 million of these purchases were made in 1967.

No. 1 Supply Centre—Capital Region

The No. 1 Supply Centre issued a total of 628,869 line items to government departments and agencies during the year. These articles had a valuation of approximately $14 million and the activity represents an increase of 26 per cent over 1966 in the number of line item transactions.

Warehousing service was provided to the Centennial Commission for the temporary storage and movement of supplies required to discharge its role in Canada's Centennial celebrations. During the year the Supply Centre completed

a major re-warehousing of all bulk stores operated for the Queen's Publisher. In addition, a stocktaking involving approximately 54,000 items was undertaken as a means of improving the management and accounting of these stocks.

CGSS Repair

The CGSS Repair Division performs technical evaluation, maintenance and repair and overhaul on office equipment, machines and office furniture used by the Federal Government. This involves providing maintenance for approximately 150,000 pieces of office equipment valued at $50 million, and the repair, where required, of a wide range of furniture worth over $40 million.

Service operations are conducted from seven regional repair offices located across Canada and, during the year, 145,500 items of equipment received attention. Of this number some 42,000 items were serviced by commercial vendors for a total contractual value of $560,000. Contracts totalling $132,000 were placed with industry for the repair of conventional office furniture and other items such as Post Office security safes, air circulating fans, indexing equipment and filing cabinets.

Cataloguing

The Cataloguing Branch, during 1967, continued with its program to identify and catalogue stock items in a number of departments in preparation for purchasing and supply consolidation. During the year, 10,000 purchase descriptions were produced and distributed in support of purchasing activities. A total of 21 catalogues embracing a wide range of items were printed and distributed. Codification assistance was provided to Canadian manufacturers holding NATO contracts for defence materiel.

Quality Management

This branch carried out the quality management of furniture and stationery, the administration of the National Credit Card System for Government motor vehicles and provided technical advice on motor vehicle fleet operations to federal departments and agencies.

Special projects completed during the year included technical and economic studies, the co-ordination of an extensive user trial relating to the introduction of modular furniture into Government use, and the development of a plan for the management of the Government's fleet of motor vehicles.

Specifications and Standards

The Specifications and Standards Branch, which also serves as the Secretariat of the Canadian Government Specifications Board, issued 152 new and revised standards and 118 amendments to update existing standards during 1967. Included were provisional standards for modular shelving for lateral open shelf filing systems, standards for studded tires, an amendment to permit the use of particle board in the construction of office furniture, and a revision of the criteria for passenger car tubeless tires.

Work on motor vehicle safety continued and two new standards were issued. The Branch also contributed to the development of Federal Government policy concerning *mandatory* safety requirements as part of a general government responsibility for motor vehicle safety.

Supply Management

The Branch took preliminary steps in the implementation of a commodity management concept by appointing a Commodity Manager—Furniture, who initially will co-ordinate the introduction of modular furniture and steel shelf filing and who will ensure the compatibility of conventional government furniture standards with current production practices.

The introduction of improved operating and inventory management systems resulted in an improved customer service which will enable the CGSS to continue with the consolidation of supply services for civil departments.

The Branch achieved considerable progress in the development of a modern materials handling system for No. 1 Supply Centre. Consumer stores and Production Assets, managed by the CGSS in Toronto and formerly separately located, were moved to a single site to enable more economic and effective management.

Data processing services were provided for all elements, in addition to carrying out stock control, accounting, and related functions for the CGSS.

Traffic Management

During 1967, the Traffic Management Branch was involved in the following major services for government departments and agencies:

a. The Hotel Reservation Service that was set up to handle government requirements for hotel rooms in Montreal during Expo '67 booked a total of 19,879 hotel reservations.

b. The Guaranteed Hotel Rate Program was expanded and reduced rates are now available for federal government employees travelling on official business at more than 500 hotels and motels throughout Canada and the United States.

c. A Central Travel Service was developed to make carrier and hotel reservations and to provide tickets, itineraries and travel information for all civil departments located in the Ottawa area.

d. The pilot project of a centralized freight audit system was established. Although it is in its initial stages, substantial financial recoveries from civilian transportation companies have already been realized.

e. The analysis by the Traffic Audit Section of the transportation elements of contracts prior to award resulted in a considerable reduction in the overall cost of materiel for the Department and its customers.

f. On behalf of the Canadian Commercial Corporation, the Branch managed the shipment of nearly 300,000 tons of materiel valued at more than $41 million for foreign governments and for aid programs.

Regional Purchasing Offices

CANADA

St. John's, Nfld.	Room 408, Main Post Office Building, Water Street, P.O. Box 487.
Halifax, N.S.	Second Floor, Sir John Thompson Building, Barrington Street, P.O. Box 1655.
Saint John, N.B.	Room 408, Sadim Building, Canterbury and Duke Streets.
Quebec 2, Que.	Gare Maritime Champlain, Chemin des Foulons.
Montreal 18, Que.	1441 St. Urbain Street.
Ottawa, Ont.	1010 Somerset Street West.
Toronto 1, Ont.	Room 1214, Mackenzie Building, 36 Adelaide Street East.
London, Ont.	388 Dundas Street, P.O. Box 2275—Terminal "A"
Winnipeg 2, Man.	Room 326, 344 Edmonton Street.
Regina, Sask.	Room 302, New Post Office Building, Cornwall and S. Railway Streets.
Calgary, Alta.	Room 725, Public Building, 8th Avenue and 1st Street East.
Edmonton, Alta.	Room 308, Federal Building, 107th Street and 99th Ave.
Vancouver, B.C.	Harry Stevens Building, 125E, 10th Avenue.
Victoria, B.C.	Room 318, Canada Customs House, 816 Government Street.

OVERSEAS

London, England	Canadian Department of Defence Production, 1 Grosvenor Square. London W.1., England.
Koblenz, Germany	Canadian Department of Defence Production, 5400 Koblenz/Germany, Postfach 566.

Canadian Government Purchasing Service

The Canadian Government Purchasing Service (CGPS), established in October 1967, groups together the purchasing and support branches that perform central buying for the Government. The Purchasing Branches (Aerospace, Electrical and Electronics, Armament and Vehicles, Shipbuilding and General Purchasing) report to the Assistant Deputy Minister (Purchasing), and the support branches (Contract Administration, Purchase Research, Contract Analysis and Legal) report to the Director General, Contracts.

The program for purchase consolidation, which started in 1965 as a result of recommendations of the Royal Commission on Government Organization, is well underway. The Department has now assumed buying responsibilities for 18 departments and agencies involving purchases representing nearly 50 per cent of the total annual civilian volume anticipated when the purchase consolidation program is completed in the early 1970's.

The increased and varied workload resulting from the purchase consolidation program and the simultaneous development of an integrated logistics system by the Armed Forces, has introduced a need to improve and modernize the purchasing procedures of the Department. A thorough study of the current purchasing operation was carried out by consultants during 1967 and a program for the introduction of improvements and modern data processing methods was started in the latter part of the year.

Contracting Activity

During 1967, contracts and contract amendments issued by the Purchasing Service, had a total value of $1,096,575,000. Table 1 below shows the breakdown of this total value by source of requirement. Table 2 shows the expenditures against contracts.

Table 1—Net Value of Contracts

Sources for which Contracts Issued	1965	1966	1967
	$000	$000	$000
Department of National Defence	473,534	710,838	595,124
Department of Defence Production Votes in Support of Defence Industry	1,463	8,156	6,970
Federal Civil Departments and Agencies	56,610	90,365	110,389
Canadian External Aid	19,650	35,421	29,025
Foreign Governments	162,157	186,068	355,067
TOTAL	$ 713,414	$1,030,848	$1,096,575

The value of contracts issued against Department of Defence Production Votes in 1967 decreased due to the transfer of Vote 5, Defence Industry Modernization, to the Department of Industry on April 1, 1967.

Contracts issued in 1967 by the Regional Purchasing Offices of the Department had a total value of $128,589,000 and are included in the above statistics.

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Table 2—Expenditures Against Contracts

Sources Paying the Contracts	1965	1966	1967
	$000	$000	$000
Department of National Defence	462,732	483,657	499,575
Department of Defence Production Votes in Support of Defence Industry	1,656	4,882	6,008
Federal Civil Departments and Agencies	42,773*	86,762*	106,904*
Canadian External Aid	13,826	36,027	37,669
Foreign Governments	107,847	148,850	185,553
TOTAL	$ 628,834	$ 760,177	$ 835,709

*Expenditures against Federal Civil Departments and agencies are estimated.

Department of National Defence

Contracts issued on behalf of the Department of National Defence had a net value of $595,124,000, which represents 54 per cent of the total net value of all contracts issued. This compares with 69 per cent in 1966.

Production continued at Canadair of the CF-5 aircraft for the Canadian Armed Forces. Delivery of the first aircraft, originally scheduled for late 1967, was made in February, 1968 with delivery of the 115 aircraft to be completed in late 1970. Contracts were issued during 1967 for avionics, armament and other government supplied equipment for installation in the CF-5. Four additional Lockheed C-130E aircraft were also ordered for delivery in 1968.

Deliveries of CHSS-2 helicopters to the Canadian Armed Forces continued during 1967 and is scheduled for completion in 1968. A contract was negotiated with Bell Aerospace for the supply of 10 CUH-1H helicopters with delivery to commence in 1968. Initial delivery of the 15 De Havilland of Canada CF-115 Buffalo Aircraft which were ordered has been made and the balance will be delivered during 1968.

About 200 contracts were issued for the repair and overhaul of aerospace equipment (aircraft, engines and accessories) and related services. These were distributed among 46 contractors in Canada, three in Great Britain, one in the United States, one in Germany and one in India.

Extensive procurement of communications equipment continued during the year and a major study of communication services and facilities of the Armed Forces was undertaken to provide a comprehensive plan for future improvements. Construction of the third Canadian satellite ISIS "A" is proceeding to meet the scheduled launching late in 1968.

Procurement continued for the supply of machinery and equipment to be fitted in the DDH 280 and class Destroyer Escorts. Contracts issued during the year included such items as the variable depth sonar, air conditioning, heating and

ventilating systems and naval guns. The second of three Oberon class submarines being purchased from Great Britain was delivered in 1967 and delivery of the third is scheduled for July 1968. Construction of the two operational support ships proceeded on schedule with delivery forecasted in June and November of 1969. These two ships will improve Canada's anti-submarine warfare capability by enabling warships to remain at sea for much longer periods.

An innovation in contracting for ship repairs in 1967 was the combining of two major refits at one shipyard at the same time, which resulted in significant cost savings.

A program to replace military jeeps was initiated with a Canadian manufacturer being awarded a contract for 800 vehicles.

Planning for the procurement of a new uniform for male personnel of the Armed Forces proceeded during the year and a production plan was developed. In addition, a design and development project for uniforms for female personnel was initiated. A request sent to 600 designers resulted in the submission of 33 designs for this uniform. Prototype uniforms and accessories were produced by the 9 selected designers and these are now under consideration.

Foreign Governments

Prime contracts for defence requirements issued on behalf of foreign governments totalled $355 million.

Negotiations were completed for the production of 105 NF-5 aircraft for delivery to the Netherlands and contracts were awarded for much of the avionics and armament equipment for these aircraft. The NF-5 is a modified version of the CF-5 aircraft being purchased for the Canadian Armed Forces. Delivery to the Netherlands will begin early in 1969 and is expected to be completed in 1971.

Contracts were issued on behalf of various foreign governments for electronic equipment developed in Canada such as Tactical Radio Relay Equipment, Multiplexers, Doppler Navigation, and Crash Position Indicators.

A contract valued at approximately $6 million was awarded for 46 XM-571 Dynatrac Vehicles, for delivery to the United States Army. This is a military personnel carrier, developed and manufactured in Canada.

A major contract in the shipbuilding area was received from the United States Navy for fabricated steel flight deck sections for the conversion of the aircraft carrier, the U.S.S. Midway. The initial contract was valued at $3.3 million with additional work estimated at $5 million to be negotiated.

Canada continued to supply anti-submarine projectiles to both Great Britain and the Netherlands. An order was received from Great Britain for the supply of Canadian designed anti-personnel mines.

Civil Departments and Agencies

Contracts issued on behalf of civil government departments and agencies, including the External Aid Office, had a net value of $139,414,000 in 1967. This represented 12.7 per cent of the year's total contracting activity.

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Contracts awarded on behalf of the External Aid Office totalled $29,025,000 and covered a wide range of commodities such as various food items, printing equipment, polio vaccines, dump and tractor trailer trucks and custom designed mechanical/electrical installations.

Negotiations continued in connection with government advertising and this activity, combined with further consolidation of requirements, resulted in cost reductions of about $200,000. Rates were negotiated for the provision of Commissionaire Services at government buildings across Canada at a total cost of over $13 million.

Two Tidal and Current Survey Vessels and an Oceanographic Survey Vessel were delivered to the Department of Energy, Mines and Resources during 1967. A Limnographic Research Vessel is currently being constructed for delivery in mid-1968.

Contracts valued at about $3 million were issued on behalf of the Dominion Coal Board and the Cape Breton Development Corporation for coal mining equipment to modernize the Cape Breton Collieries.

Motor vehicle procurement continued to increase with a total of almost $5 million in 1967. The purchase of pharmaceuticals, laboratory and photographic supplies and equipment on behalf of civil departments totalled approximately $6 million.

Other civilian requirements of interest purchased during the year included language laboratories and a new design of modular furniture and shelving for use in government offices.

Centennial Year

Contracting for Canada's Centennial celebrations constituted an important activity during 1967. Procurement was successfully completed for all of the displays for the EXPO '67 theme "Man and His World", which were contained in the ten theme pavilions. Contractual arrangements were made for leasing and operation of the Confederation Train and Caravans and the operation Heads of States Trains. Design assistance and procurement of equipment for the Confederation Train and Caravans was carried out and final deliveries of the many historical uniforms required for the Armed Forces Military Tattoo were made early in the year.

During the year contracts were awarded by the Department for such items as flags, trophies, medals, and fireworks displays.

International Programs

The International Programs Branch is responsible for the management and administration support of the Canadian Commercial Corporation, the overall market development and management with respect to foreign procurement of Canadian defence products and for the establishment of co-operative defence industrial research, development and production arrangements with Canada's allies. Support in these activities is furnished by specialists located in the United States, Great Britain, France, West Germany, Italy and by the Canadian Delegation to the North Atlantic Council. The administration of the programs for the defence industry modernization and defence equipment development was transferred to the Department of Industry during 1967.

Canadian Commercial Corporation

The operations of the Canadian Commercial Corporation are closely integrated with those of the Department of Defence Production. However, it retains its corporate identity under its President who serves also as the Director of the department's International Programs Branch.

During 1967, the total dollar value of business received by the Corporation from other governments, international agencies and departments of the Government of Canada amounted to $305 million, representing an increase of approximately $95 million over the previous year.

Canada-United States Defence Development and Production Sharing Program

Established in 1959, this program is designed to permit the most economical and efficient utilization of the North American defence industrial base. The program provides for the joint development and the reciprocal procurement of items of mutual defence interest on a balanced basis between both countries. A wide range of defence items are covered by the program, but excludes off-the-shelf general supplies, construction, basic raw material, fuels and lubricants, and special services.

United States contracts placed in Canada under the program during the year were valued at $307.7 million. Canadian defence purchases from the United States under the program during 1967 reached $293.8 million. The total value of the United States procurement in Canada since the inception of the program amounts to $1798.9 million and the total of Canadian procurement in the United States since the start of the program amounts to $1608.0 million. The cumulative balance in Canada's favour at the end of 1967 was $190.9 million.

Overseas Programs

During 1967, the Department continued its efforts to establish co-operative defence development and production programs with Canada's NATO partners and other friendly countries. Through a series of briefings, missions and industrial tours the special technological skills of Canadian defence industries have

CANADA - U.S. DEFENCE PRODUCTION SHARING PROGRAM (1962-1967)

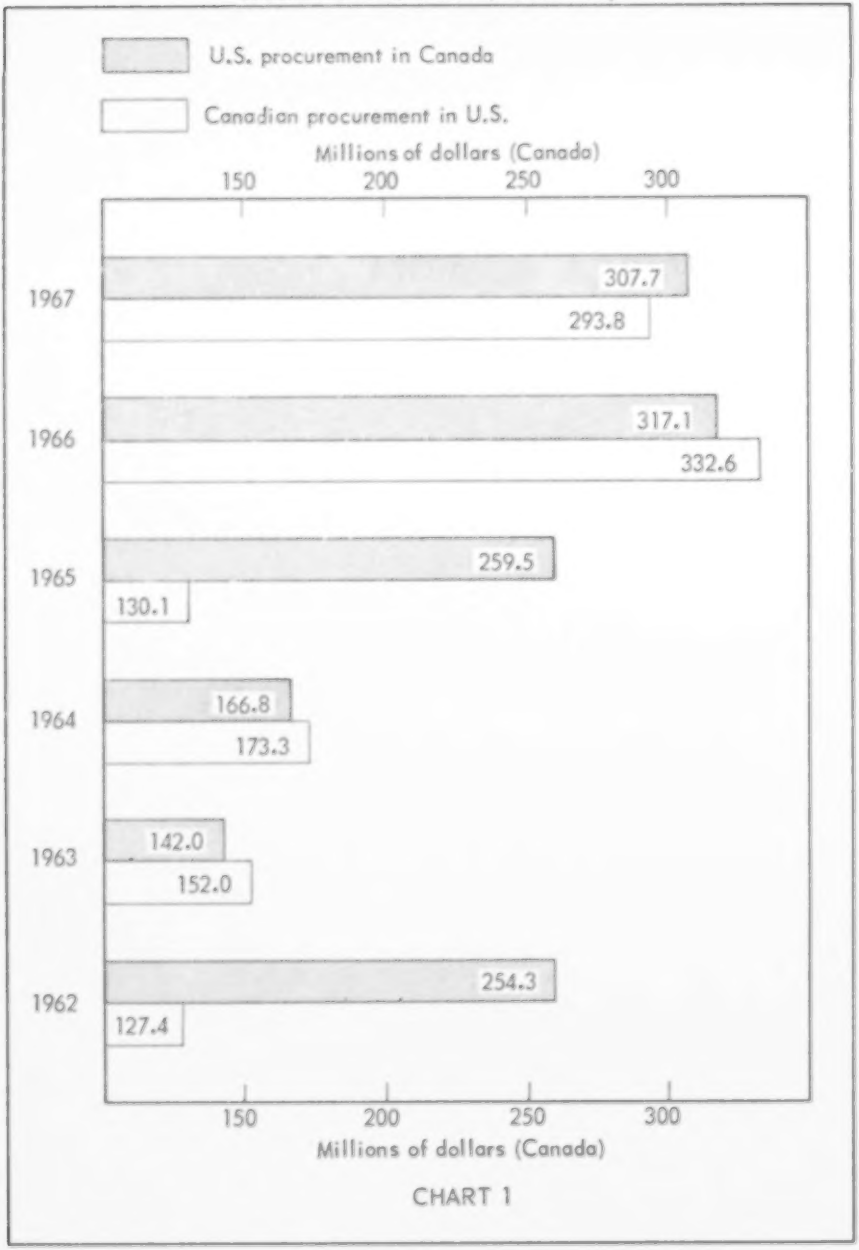


CHART 1

been brought to the attention of these countries as a basis for possible collaborative programs. The most significant result of these efforts was the conclusion of an agreement for a co-operative program with the Netherlands for the production of NF5 fighter aircraft in Canada for the Royal Netherlands Air Force.

Contracts placed in Canada during 1967 by or on behalf of overseas defence agencies for military requirements, totalled $133.5 million in value.

NATO Infrastructure

The continued efforts of the Department to encourage Canadian industry participation in the NATO common infrastructure and other NATO programs resulted in the award of contracts valued at approximately twelve million dollars to Canadian firms in 1967.

CANADA – OVERSEAS DEFENCE TRADE (1962-1967)

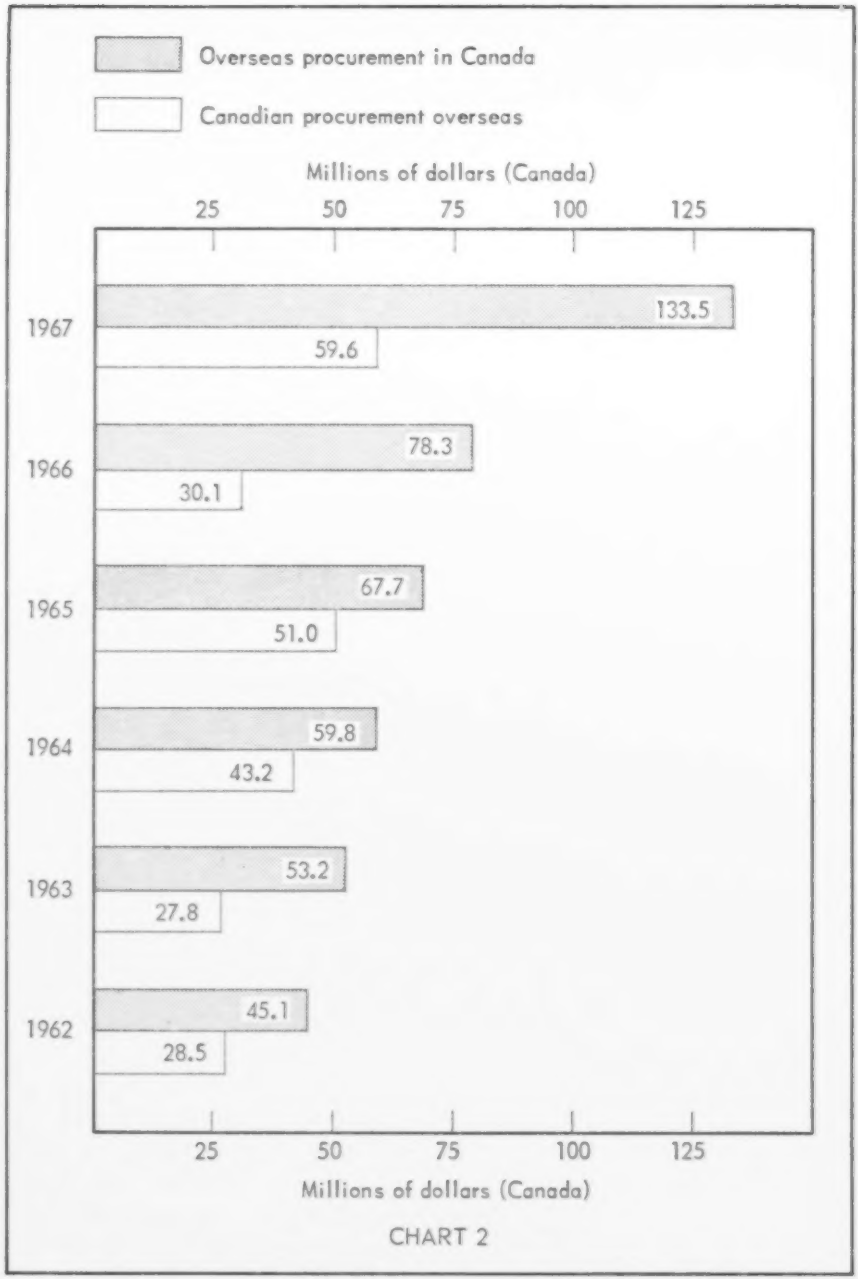


CHART 2

Foreign Field Offices

INTERNATIONAL PROGRAMS BRANCH

LONDON, W.1., ENGLAND.....Canadian Department of Defence Production,
Macdonald House,
No. 1 Grosvenor Square

PARIS 8EME, FRANCE.....Department of Defence Production,
Ambassade du Canada,
35 Avenue Montaigne.

BRUSSELS, BELGIUM.....Department of Defence Production,
Canadian Delegation to the North Atlantic Council,
OTAN-NATO, Brussels 39.

BONN, GERMANY.....Department of Defence Production,
c/o Canadian Embassy,
Zitelmannstrasse 22,
Bonn, Germany.

ROME, ITALY.....Department of Defence Production,
Ambasciata del Canada,
Via G.B. de Rossi 27,
Rome, Italy.

WASHINGTON, D.C., U.S.A.....Canadian Joint Staff Bldg.,
2450 Massachusetts Ave.,
P.O. Box 4897,
Cleveland Park Station,
Washington, D.C. 20008, U.S.A.

BOSTON, MASS., U.S.A.....Canadian Department of Defence Production,
ESKZ, STOP #34
L. G. Hanscom Field,
Bedford, Mass. 01731, U.S.A.

DAYTON, OHIO, U.S.A.....MCL/DDP,
Wright—Patterson Air Force Base,
Ohio 45433, U.S.A.

DETROIT, MICH., U.S.A.....Canadian Department of Defence Production,
c/o Michigan Army Missile Plant,
38111 Van Dyke Ave.,
Warren, Mich., 48090, U.S.A.

LOS ANGELES, CALIF., U.S.A.....Canadian Department of Defence Production,
Defence Contract Administration,
Services District,
125 South Grand Ave.,
Pasadena, Calif., 91109, U.S.A.

PHILADELPHIA, PA., U.S.A.....Canadian Department of Defence Production,
US Army Electronics Command,
ATTN: SELSC/P-CD
225 South Eighteenth,
Philadelphia, Pa., 19103, U.S.A.

Project Management

The Project Management Branch is responsible for the management of the procurement of major defence equipment and for the development and production of new defence systems to meet the requirements of Canada and allied countries. A system of single office project management is used wherein a single officer is assigned authority and responsibility for the successful management of all aspects of implementing an individual project.

During 1967, project management was applied to the following major programs:

DDH 280 and Class Destroyer Escorts to be built for the Canadian Armed Forces. The tenders for ship construction closed in December, 1967, and the proposals from the Canadian Shipbuilding Industry are under evaluation.

CF5/NF5 close support Aircraft being produced for the Royal Netherlands Air Force and the Canadian Armed Forces. A firm requirement for the production of 105 Aircraft was received from the Royal Netherlands Air Force in 1967.

The FHE 400 oceangoing Hydrofoil Ship. Following repair of the November 1966 fire damage, development is continuing and the ship launch is now scheduled for late 1968.

The Surveillance Drone System AN/USD501 where development and testing is nearing completion. Firm production commitments have been received from the Federal Republic of Germany, Great Britain and the Canadian Armed Forces.

Canadian Sea Sparrow Defence System for the DDH 280 and Class Destroyer Escorts and the Operational Support Ships. A contract has been awarded for the development, fabrication, installation and test of a prototype close range surface to air missile system.

The Meteorological Rocket project. Contracts have been placed for the exploratory development phase involving two simple, low cost, reliable rocket vehicles.

Sound Ranging project. Service testing of the equipment was conducted during 1967 and development of equipment to locate enemy artillery is continuing.

Work on the development of the OT 4 Gas Turbine engine and the Periscopter unmanned elevated sensor system was discontinued during the year as it became evident that the basic objectives of these programs could not be achieved.

Ottawa, July 17, 1967.

The Honourable C. M. Drury,
Minister of Defence Production,
Ottawa.

Sir,

I have examined the Statement of Assets and Liabilities of the Department of Defence Production as at March 31, 1967 which includes capital and other assets acquired through the medium of parliamentary appropriations for which the Department is accountable. My examination included a general review of the accounting procedures and such tests of the accounting records and other supporting evidence as I considered necessary in the circumstances.

In accordance with established government practice, all assets are carried at cost, no provision having been made for known diminution in value of the clothing and footwear or for depreciation of the capital assets.

In my opinion, subject to the foregoing, the accompanying Statement of Assets and Liabilities presents fairly the financial position of the Department as at March 31, 1967 in accordance with generally accepted accounting principles applied on a basis consistent with that of the preceding year.

Yours faithfully,

A. M. HENDERSON,
Auditor General of Canada.

Department of Defence Production

Statement of Assets and Liabilities, as at March 31, 1967

(with comparative figures as at March 31, 1966)

Assets

		1967	1966
Deposits with Receiver General		$ 492,886	$ 2,533,363
Imprest funds		15,248	12,445
Accounts receivable		159,866	210,812
Due from employees		36,487	22,443
Receivable under long-term agreements		1,605,546	2,767,630
Working capital advances—			
Defence Production Revolving Fund	$34,018,100		22,589,633
Canadian Commercial Corporation	10,000,000		5,500,000
Canadian Arsenals Limited	5,000,000		5,000,000
Canadian Government Printing Bureau—			
Queen's Printer's Advance	1,415,022		3,715,578
Canadian Government Supply Service	859,758		—
		51,292,880	36,805,211
Inventory of clothing, footwear, etc., at cost		11,976,428	7,898,298
Investments in Crown Corporations, at cost (Note 1)—			
Capital Stock:			
Polymer Corporation Limited	30,000,000		30,000,000
Canadian Arsenals Limited	30		30
		30,000,030	30,000,030
Land, buildings, machinery and equipment, at cost, including rehabilitation and installation costs (Note 2)		76,941,067	105,314,694
		$172,520,438	$185,564,926

Liabilities and Government Equity

	1967	1966
Accounts payable and other liabilities	$ 495,944	$ 2,626,842
Equity of Government of Canada	172,024,494	182,938,084
	$172,520,438	$185,564,926

The appended notes are an integral part of this statement.

Approved on behalf of the Department

G. W. HUNTER
Deputy Minister

N. R. MacLEAN
Comptroller

I have examined the above Statement of Assets and Liabilities and have reported thereon under date of July 17, 1967, to the Minister of Defence Production.

A. M. HENDERSON
Auditor General of Canada

Department of Defence Production

Notes to the Statement of Assets and Liabilities at March 31, 1967

1. As the Minister of Defence Production is responsible for the operations of—

Polymer Corporation Limited,

Canadian Arsenals Limited

Crown Assets Disposal Corporation and

Canadian Commercial Corporation

the recorded investments of the Crown in these Corporations are reflected in the Accounts of the Department.

In addition to the recorded investments in these Corporations the Crown has equity, which has not been recorded in the Accounts

—of $70,318,823 in the retained earnings of Polymer Corporation Limited and its subsidiaries at December 31, 1966, an increase of $4,074,197 for the year ended on that date;

—of $7,398,163 in Crown Assets Disposal Corporation at March 31, 1967, comprising $100,000 in retained earnings in the General Account, and $7,298,163 in the Agency Account relating mainly to accounts receivable under long-term interest-bearing sales agreements, an increase of $2,275,293 for the year ended on that date; and

—of $397,123 in Canadian Commercial Corporation at March 31, 1967 comprising $173,752 unrealized profits on U.S. exchange and $223,371 Reserve for Contingencies, an increase of $33,969 for the year ended on that date.

2. In addition to the fixed assets shown on the Statement of Assets and Liabilities, the Department is responsible for production tooling, dies and jigs costing $184,590,987 located in warehouses and contractors' plants, title to which is vested in the Crown.

3. A Crown-owned plant is presently being operated, on behalf of the Department, by a commercial company. The Crown's share of losses on operations to March 17, 1967, estimated to be $100,000, is not reflected in this statement.

4. An action for the recovery of $2 million from the Department of Defence Production for patent infringements has been filed with the Exchequer Court of Canada. Of this amount approximately $1.6 million relates to purchases made by the Canadian Commercial Corporation on behalf of its customers. Departmental legal officers are of the opinion that the action can be successfully defended.

Department of Defence Production

Summary of changes in Equity of Government of Canada Account for the year ended March 31, 1967

Balance at April 1, 1966		$182,938,084
Add:		
Increases in working capital advances	$14,487,669	
Assets transferred from other departments and agencies of the Government of Canada	4,841,273	
Assets acquired from appropriations	582,052	
Sundry	56,931	19,967,925
		202,906,009
Deduct:		
Surplus assets transferred to Crown Assets Disposal Corporation	28,764,390	
Assets transferred to other government departments and agencies	534,588	
Collections under long-term agreements	1,219,144	
Assets written off	363,393	30,881,515
Balance at March 31, 1967		$172,024,494

Ottawa, June 26, 1967.

The Honourable C. M. Drury,
Minister of Defence Production
Ottawa.

Sir,

I have examined the Balance Sheet of the Defence Production Revolving Fund as at March 31, 1967, and the Statements of Trading Operations and Deficit for the year ended on that date. My examination included a general review of the accounting procedures and such tests of the accounting records and other supporting evidence as I considered necessary in the circumstances.

Included in Accounts receivable are non-interest bearing advances of $10,025,668 to manufacturers to assist them in the acquisition of capital equipment under the Defence Industry Modernization Program. As section 16(2)(c) of the Defence Production Act, R.S., c. 62, expressly prohibits the making of loans to assist in the acquisition of capital equipment, it is my view that these advances have been made without authority. Beginning April 1, 1967, all loans of this nature are being charged to Department of Industry Vote L 65 which has now been provided for this purpose.

I now report that, in my opinion, subject to the foregoing, the accompanying Balance Sheet and Statements of Trading Operations and Deficit present fairly the financial position of the Fund as at March 31, 1967 and the results of its Trading Operations for the year ended on that date, in accordance with generally accepted accounting principles applied on a basis consistent with that of the preceding year.

Yours faithfully,

A. M. HENDERSON,
Auditor General of Canada.

Defence Production Revolving Fund

Balance Sheet as at March 31, 1967

(with comparative figures as at March 31, 1966)

Assets

	1967	1966
Accounts receivable	$ 24,557,777	$20,653,454
Progress payments and advances to suppliers and other recoverable costs	12,545,488	9,046,427
Working capital advances	330,000	330,000
Inventories of strategic materials, etc., at cost including warehousing (Note 1)	6,894,388	7,036,306
Inventory shortage, cobalt, at cost (Note 2)	1,139,717	1,188,599
	$ 45,467,370	$ 38,254,786

Liabilities and Government Equity

	1967	1966
Accounts payable and deferred liabilities	$ 5,645,046	$ 4,804,017
Progress payments and advances from customers	5,812,980	8,574,844
Equity of the Government of Canada—		
Working capital advances as provided by section 16 of the Defence Production Act (authorized $100,000,000)	34,018,099	22,589,633
Deficit	8,755	(2,286,292)
	34,009,344	24,875,925
	$ 45,467,370	$ 38,254,786

The accompanying notes are an integral part of the financial statements.

Approved on behalf of the Department

G. W. HUNTER
Deputy Minister

N. R. MacLEAN
Comptroller

I have examined the above Balance Sheet and the related Statements of Trading Operations and Deficit and have reported thereon under date of June 26, 1967, to the Minister of Defence Production.

A. M. HENDERSON
Auditor General of Canada

Defence Production Revolving Fund
Notes to the Financial Statements at March 31, 1967

1. Prior to the current year, the costs of storing strategic materials had been charged to surplus. In 1967, prior and current charges for storage of materials still on hand were transferred from surplus and added to inventory acquisition costs.

A major part of the inventories consists of raw quartz which cost $6,077,522 and for which there is no active market. The very few sales this year have been at prices averaging 22% of original cost. The remaining inventories costing $816,866 have an estimated realizable value of $767,929.

2. An inventory of 343,552 lbs. of refined cobalt was certified as being on hand in the custodian's warehouse at March 31, 1965. However, a shortage of 314,816 lbs., costing $1,188,599 (estimated realizable value at March 31, 1965—$557,224) was discovered in May 1965 and is still under investigation. As the result of court action $48,882 has been recovered to date, and it is expected that there will be a further settlement. The balance of the cobalt was sold in the current year.

Defence Production Revolving Fund

Statement of Deficit for the year ended March 31, 1967

(with comparative figures for the year ended March 31, 1966)

	1967	1966
Balance, Surplus at April 1	$2,286,292	$ 1,818,444
Add: Net income	936,197	467,848
Warehousing costs applicable to inventories of strategic materials on hand April 1, 1966 (Note 1)	44,512	—
	3,267,001	2,286,292
Less: Transfers to the Receiver General of Canada	3,275,756	—
Balance, Deficit at March 31	$ 8,755	$(2,286,292)
The deficit at March 31, 1967 is comprised of:		
Losses on disposal of strategic materials for which a parliamentary appropriation will be requested	$77,286	
Balance of net income for the year payable to the Receiver General of Canada	68,531	
	$ 8,755	

Defence Production Revolving Fund

Statement of Trading Operations for the year ended March 31, 1967

(with comparative figures for the year ended March 31, 1966)

	1967	1966
Sales at cost—		
Aircraft and components	$17,421,337	$50,853,624
Research and development	11,242,393	15,933,246
Munitions and propellants	4,431,271	2,939,593
Shipbuilding components	—	17,630
	$33,095,001	$69,744,093
Interest earned on—		
Agreements of sale of aircraft	992,664	453,039
Working capital advances	19,800	19,745
	1,012,464	472,784
Losses on strategic materials (see below)	76,267	4,936
Net income	$ 936,197	$ 467,848

Profits and Losses on Transactions in Strategic Materials on hand April 1, 1966

	Year ended March 31, 1967			Cumulative to March 31, 1967		
	Sales	Cost of Sales	Gross Profit (Losses)	Sales	Cost of Sales	Gross Profit (Losses)
Antimony	$ 62,054	$ 61,035	$ 1,019	$ 84,458	$ 80,987	$ 3,471
Hexachlorethane				5,032	4,130	902
Picrite				872,727	872,727	—
Activated Carbon				18,457	18,457	—
	62,054	61,035	1,019	980,674	976,301	4,373
Quartz	5,683	25,373	(19,690)	186,023	205,713	(19,690)
Cobalt	51,069	108,665	(57,596)	6,823,953	6,881,549	(57,596)
	56,752	134,038	(77,286)	7,009,976	7,087,262	(77,286)
	$118,806	$195,073	$(76,267)	$7,990,650	$8,063,563	$(72,913)

Ottawa, July 17, 1967.

The Honourable C. M. Drury,
Minister of Defence Production,
Ottawa.

Sir,

I have examined the Balance Sheet of the Canadian Government Supply Service Revolving Fund as at March 31, 1967, and the related Statement of Operations for the year then ended. My examination included a general review of the accounting procedures and such tests of the accounting records and other supporting evidence as I considered necessary in the circumstances.

On April 1, 1966, the operations of the Canadian Government Supply Service were transferred to a revolving fund established by Vote L18e, Appropriation Act No. 4, 1966, for the purpose of acquiring, managing, manufacturing, producing or otherwise dealing in stores or materials; to purchase and to supply repair services for office furniture and equipment; and for freight services, for federal government departments and agencies. The purposes of the Fund have been further extended by Vote L13g, Appropriation Act No. 2, 1967, to include the procurement of insurance coverage at bulk rates on the movement of household effects and the financing in 1966-67 and 1967-68 of the cost of hotel accommodation in Montreal during the period of the Canadian Universal and International Exhibition, 1967. These supply activities to a limited degree had been previously financed through the Queen's Printer's Advance which also financed the activities of the Canadian Government Printing Bureau. The equity of the Supply Service in the Queen's Printer's Advance Account as at April 1, 1966 was transferred to the revolving fund in the amount of $1,907,831 including inventories of $1,894,436 and work in process of $1,454.

In my opinion, the accompanying Balance Sheet and Statement of Operations present fairly in accordance with generally accepted accounting principles, the financial position of the Canadian Government Supply Service Revolving Fund as at March 31, 1967, and the result of its operations for the year ended on that date.

A. M. HENDERSON
Auditor General of Canada.

Canadian Government Supply Service Revolving Fund

(Department of Defence Production)

(established by Vote L18c Appropriation Act No. 4, 1966 as amended)

Balance Sheet as at March 31, 1967

Assets

Accounts receivable		
Departments and agencies of the Government of Canada	$ 1,161,887	
Claims	56,625	
		1,218,512
Advances to suppliers		95,500
Inventories at standard cost—		
Stationery, paper and printing supplies	1,597,830	
Office furniture and equipment	320,781	
		1,918,611
		$ 3,232,623

Liabilities

Accounts payable and accrued charges	$ 2,296,865
Advance from customer department	76,000
Equity of the Government of Canada	
Advances as authorized by Department of Defence Production Vote L18e, Appropriation Act No. 4, 1966, 1966-67, c.6	859,758
	$ 3,232,623

The accompanying notes are an integral part of the financial statements.

Certified correct:

N. R. MacLEAN
Comptroller

Approved:

W. H. HUCK
for: *Deputy Minister, Department of Defence Production*

I have examined the above Balance Sheet and the related Statement of Operations and have reported thereon under date of July 17, 1967 to the Minister of Defence Production.

A. M. HENDERSON
Auditor General of Canada

Canadian Government Supply Service Revolving Fund
(Department of Defence Production)

Notes to the Financial Statements

1. Advances to suppliers comprise payments for:

(i) Insurance on removal of household effects belonging to public servants, members of the Armed Forces and the Royal Canadian Mounted Police	$90,000
(ii) Reservation of hotel accommodation in Montreal during the 1967 World Exhibition for use by public servants	$ 5,500

Advances are being liquidated as the services are provided to user departments.

2. The accounts payable include an estimated amount of $75,000 for freight charges on furniture unbilled by the carriers at the year-end.

3. Accounts receivable and Equity of the Government of Canada include adjustments for collections of accounts receivable up to May 19, 1967 amounting to $2,904,822 that are chargeable in the Accounts of Canada to the fiscal year 1966-67.

4. The cost of sales does not include the value of administration expense, light, power, telephone, heating, amortization of buildings and equipment, etc., provided free of charge by other government departments and through the medium of parliamentary appropriations for the Department of Defence Production.

Canadian Government Supply Service Revolving Fund

(Department of Defence Production)
(established by Vote L18e Appropriation Act No. 4, 1966 as amended)

Statement of Operations for the year ended March 31, 1967

	Commercial Printing	Stationery Paper and Printing Supplies	Office Furniture and Equipment	Total
Sales	$ 5,781,347	$ 7,120,205	$ 3,626,481	$16,528,033
Cost of sales				
Opening inventories	1,454	1,768,593	125,843	1,895,890
Purchase of materials	5,779,893	6,989,667	3,814,508	16,584,068
	5,781,347	8,758,260	3,940,351	18,479,958
Deduct:				
Closing inventories	—	1,597,830	320,781	1,918,611
	$ 5,781,347	7,160,430	3,619,570	16,561,347
		(40,225)	6,911	(33,314)
Discounts earned		35,564	9,648	45,212
Operating profit transferred to the Consolidated Revenue Fund as revenue	$ —	$ (4,661)	$ 16,559	$ 11,898

The accompanying notes are an integral part of the financial statements.

Department of Defence Production—Appropriation Account

Statement of Expenditures
For the year ended March 31, 1967

(with comparative figures for the year ended March 31, 1966)

	1967	1966
Vote 1—Departmental Administration		
Salaries	$19,274,420	$15,467,364
Living Allowances	266,539	259,383
Travelling and removal expenses	605,481	498,351
Office stationery, supplies and equipment	992,790	668,128
Repairs to office equipment and acquisition of spare parts	530,408	517,401
Telephones and telegrams	482,173	335,727
Professional and special services	349,217	322,108
Postage	109,094	74,961
Freight, express and cartage	203,140	159,549
Rental of buildings and works	41,418	38,256
Publication of departmental reports and other material	76,176	83,281
Materials and supplies	33,876	24,795
Acquisition or construction of equipment	114,299	43,858
Repairs and upkeep of equipment	10,890	10,463
Sundries	62,505	59,242
Care, maintenance and custody of standby defence plants, etc.	127,093	88,113
Grants to municipalities in lieu of taxes	187,370	207,526
Exhibits, advertising, films and displays	4,844	—
Rental of equipment	2,028	—
Unemployment insurance contributions and other personal benefits	1,661	—
	23,475,422	18,858,506
Vote 5—Establishment of Production Capacity and for Capital Assistance		
Capital Account		
Accountable advances to contractors	161,712	185,990
Current Account		
Defence industry modernization	8,000,000	2,440,000
	8,161,712	2,625,990
Vote 10—Establishment of Qualified Sources for the Production of Component Parts and Materials		
Current Account	—	229,729
Vote 10G—Reimbursement of the Supply Service Revolving Fund	13,423	—
Vote 15G—Reimbursement of the Queen's Printer's Advance Account for the Value of Stores which have become Obsolete or Unserviceable (Vote 11E for 1965-66)	36,678	44,476
Vote 40—Canadian Arsenals Limited		
Administration and operation	832,757	1,494,945
Vote 45—Canadian Arsenals Limited		
Construction, improvements and equipment	420,340	181,317
Statutory—Gratuities to families of deceased personnel	—	930
Statutory—Exchequer Court Awards	—	2,290
	$ 32,940,332	$ 23,438,183

Department of Defence Production

Statement of Revenue
For the year ended March 31, 1967

(with comparative figures for the year ended March 31, 1966)

	1967	1966
Non-Tax Revenue		
Return on investments	$ 8,946,874	$ 5,537,596
Proceeds from sales	7,608,369	7,439,153
Services and service fees	118,377	223,168
Refunds of previous years' expenditure	23,164	25,735
Miscellaneous	185,924	77,075
	$16,882,708	$13,302,727

Crown Companies Associated with the Department of Defence Production

Canadian Arsenals Limited

President	J. R. Brisson
Vice-President	G. W. Hunter
Secretary	K. J. Price

Canadian Commercial Corporation

President	A. D. Belyea
General Manager	D. A. Myhill
Comptroller	N. R. MacLean
Secretary	T. M. Coghlan

Crown Assets Disposal Corporation

President	Jean Miquelon
Vice-President	G. W. Hunter
General Manager	R. P. LaPlante
Secretary and Legal Counsel	R. LaPrairie

Polymer Corporation Limited

President and Managing Director	E. R. Rowzee
Vice-President	E. J. Buckler
Vice-President	L. D. Dougan
Vice-President	R. E. Hatch
Vice-President	I. C. Rush
Vice-President	S. Wilk
Treasurer	G. Bracewell
Secretary and Chief Legal Officer	W. J. Dyke

Senior Departmental Personnel

Minister

The Honourable C. M. Drury, P.C., C.B.E., D.S.O., Q.C., M.P

Executive Assistant to the Minister ..... T. Porteous

Deputy Minister

G. W. Hunter

Assistant Deputy Minister, Supply	W. H. Huck
Assistant Deputy Minister, Operations	D. B. Mundy
Assistant Deputy Minister, Finance	R. M. Keith
Assistant Deputy Minister, Purchasing	J. S. Glassford
Departmental Secretary	W. J. Mulock
Director, Personnel Branch	D. E. Lavalley
Legal Adviser	C. S. Stevenson
Security Adviser	E. S. Perkin

Supply — Canadian Government Supply Service

Director-General, Operations	R. C. D. Laughton
Director, Regional Purchasing Branch	H. G. Hunt
Director, No. 1 Supply Centre Branch	R. A. Murray
Director, Traffic Management Branch	G. J. Whyte
Director, Cataloguing Branch	C. E. Adams
A/Director, Specifications & Standards Branch	J. E. Hannah
Director, Supply Management Branch	H. H. Floyd
Director, Quality Management Branch	C. L. Muir
Director, Supply Planning & Control Branch	J. B. P. Mahony

Purchasing — Canadian Government Purchasing Service

Director, Aerospace Branch	W. W. Reid
Director, Electrical & Electronics Branch	S. I. Comach
Director, Shipbuilding Branch	A. W. Allan
Director, Armament & Vehicles Branch	K. O. Grant
Director, General Purchasing Branch	D. M. Erskine
Director, Contract Administration Branch	J. J. Tevlin
Director, Purchase Planning & Control Branch	J. G. Ford
Director-General, Contracts	F. E. Anderson
Director, Legal Branch	C. S. Stevenson
Director, Purchase Research Branch	D. H. Hand
Director, Contracts Analysis Branch	(Vacant)

Operations

Director, International Programs Branch	A. D. Belyea
Director, Project Management Branch	R. M. Trites
Director, Operations Planning & Control Branch	G. E. Woodside

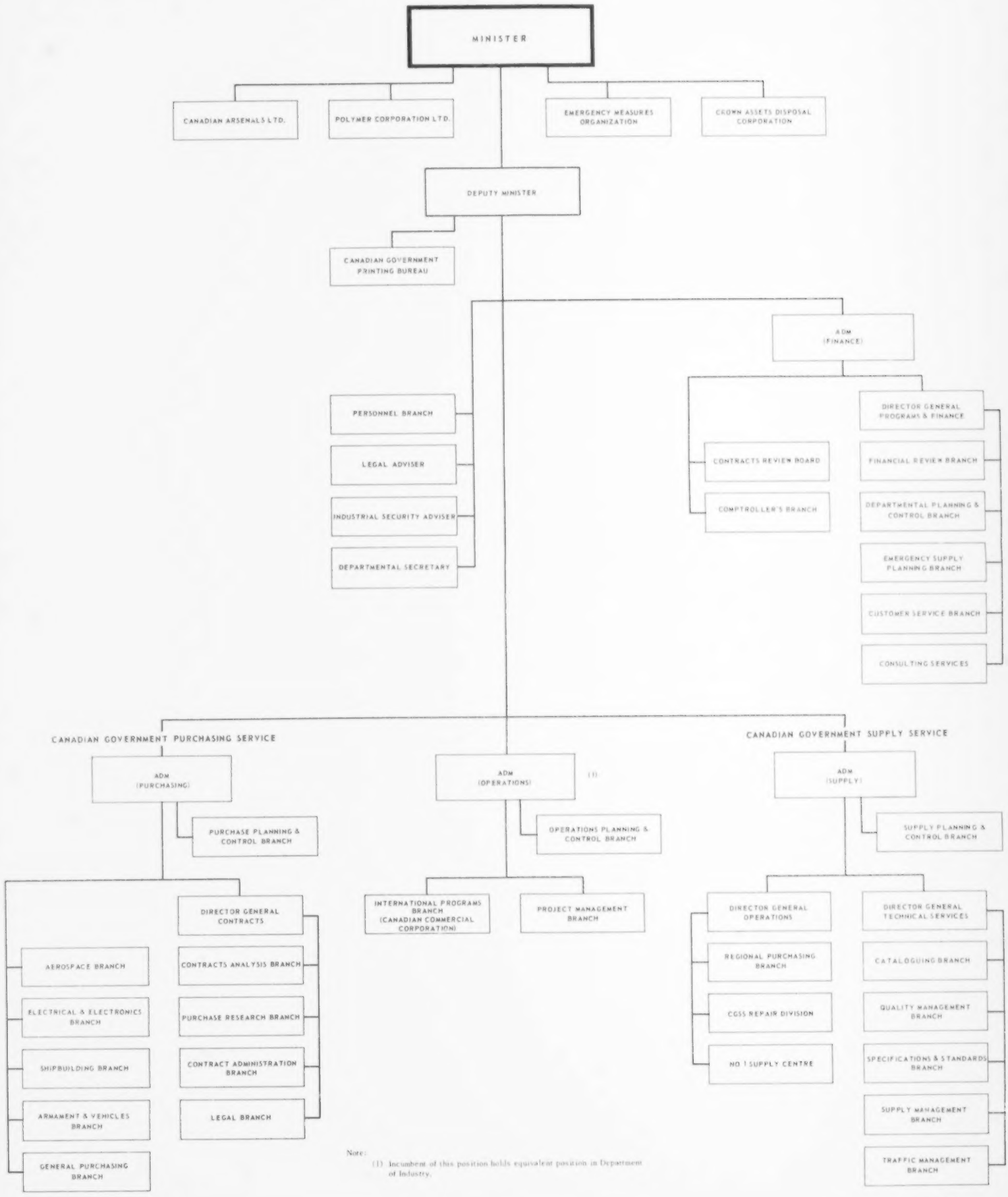
Finance

Director-General, Programs & Finance	J. W. Long
Acting Director, Emergency Supply Planning Group	C. O. Gervais
Comptroller	N. R. MacLean
Director, Customer Service Branch	R. A. Gillis

Canadian Government Printing Bureau

General Manager	C. B. Watt

DEPARTMENT OF DEFENCE PRODUCTION



Note:

(1) Incumbent of this position holds equivalent position in Department of Industry.

December 1967